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CITY OF ONTARIO, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2008

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CITY OF ONTARIO

JUNE 30, 2008

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CERTIFIED PUBLIC ACCOUNTANTS

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  - Donald L. Parker, C.P.A.
  - Michael K. Chu, C.P.A.
  - David E. Hale, C.P.A., C.F.P.
- A Professional Corporation*
- Donald G. Slater, C.P.A.
  - Richard K. Kikuchi, C.P.A.
  - Susan F. Matz, C.P.A.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council  
City of Ontario, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, California, (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency reported in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.



To the Honorable Mayor and Members of the City Council  
City of Ontario, California

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the City of Ontario are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lane, Soll & Loughard, LLP*

December 11, 2008

- Brandon W. Burrows, C.P.A.
- Donald L. Parker, C.P.A.
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- David E. Hale, C.P.A., C.F.P.  
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND  
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and the Members of the City Council  
City of Ontario, California

### Compliance

We have audited the compliance of the City of Ontario, California, (the "City") with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



To the Honorable Mayor and the Members of the City Council  
City of Ontario, California

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in the internal control over compliance that we consider material weakness as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated December 11, 2008. Our audit was performed for the purpose of forming an opinion of the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Lance, Soll & Loughard, LLP*

March 2, 2009

## CITY OF ONTARIO

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Community Development Block Grant	14.218	B-07-MC-06-0537	\$ 4,659,084
Home Investment Partnership Act Program	14.239	M-07-MC-06-0524	1,251,772
Emergency Shelter Grant Program	14.231	S-07-MC-06-0537	111,151
<b>Total U.S. Department of Housing and Urban Development</b>			<b>6,022,007</b>
<u>U.S. Department of Transportation</u>			
Direct Program:			
Federal Aviation Administration:			
Airport Improvement Program *	20.106	3-06-0175-25	2,645,640
		3-06-0175-26	482,813
		3-06-0175-28	732,045
		Property Acquisition	2,335
			3,862,833
Passed through the State of California			
Department of Transportation:			
Highway Planning and Construction	20.205	DE-0007(802)	183,002
		DE-0007(810)	702,145
		HP21L-5092(020)	148,611
		TCRP01-5092(016)	1,166,806
			2,200,564
Passed through the State of California			
Office of Traffic Safety:			
West End Regional Street Racing Task Force	20.600	PT0568	37,324
Southern California Illegal Street Racing			
Training and Enforcement Program	20.600	PT0812	148,919
Selective Traffic Enforcement Program (STEP)	20.600	PT0801	281,435
DUI Education, Prevention and Enforcement			
Program (DEPEP)	20.601	PT0634	50,413
Sobriety Checkpoint Program	20.601	SC073610	77,220
Click It or Ticket Program For Local Law			
Enforcement Agencies	20.609	CT08293	12,325
			607,636
<b>Total U.S. Department of Transportation</b>			<b>6,671,033</b>

## CITY OF ONTARIO

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through/ Grantor's Number</b>	<b>Expenditures</b>
<u>U.S. Environmental Protection Agency</u>			
Passed through the Metropolitan Water District of Southern California			
Water Infrastructure - Remediation of Perchlorate- Contaminated Well Water	66.202	XP-96990001-0	76,960
<b>Total U.S. Environmental Protection Agency</b>			<b>76,960</b>
<u>U.S. Department of Justice</u>			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710	2006-CKWX-0246	25,815
Law Enforcement Technology	16.710	2003-CKWX-0361	5,014
Secure Our Schools Act			30,829
Passed through the County of San Bernardino:			
Drug Enforcement Administration			
Byrne Formula Grant Program (ADA)	16.579	DC08190360	60,623
Bureau of Justice Assistance			
Byrne Memorial Justice Assistance Grant Program	16.738	2006	26,363
		2007	42,213
			129,199
<b>Total U.S. Department of Justice</b>			<b>160,028</b>
<u>U.S. Department of the Treasury</u>			
Passed through the County of San Bernardino			
Drug Enforcement Administration:			
Federal Asset Forfeiture Program	21.000		430,192
<b>Total U.S. Department of the Treasury</b>			<b>430,192</b>
<u>Institute of Museum and Library Services</u>			
Direct Program:			
Museums for America	45.301	MA-01-07-0167-07	14,546
<b>Total Institute of Museum and Library Services</b>			<b>14,546</b>



CITY OF ONTARIO

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through/ Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Assistance to Firefighters Grant Program	97.044	EMW-2006-FP-01536	43,511
Passed through the County of San Bernardino			
Office of Emergency Services			
Buffer Zone Protection Program	97.078	2007-BZ-T7-0006	35,639
Homeland Security Grant Program	97.067	HSGP	249,061
Emergency Management Performance Grant	97.042	2005 EMPG	10,690
		2006 EMPG	18,994
<b>Total U.S. Department of Homeland Security</b>			<b><u>357,895</u></b>
<b>Total Federal Expenditures</b>			<b><u>\$ 13,732,661</u></b>

\*Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There was no federal awards expended in the form of noncash assistance, insurance in effect or loans or loan guarantees during the year.

Note c: Total amount provided to subrecipients during the year from the Community Development Block Grant and from the Emergency Shelter Grant amounted to \$232,150 and \$107,688 respectively.

**CITY OF ONTARIO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

**a. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by the City of Ontario, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

**b. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF ONTARIO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.106

Airport Improvement Program

Dollar threshold used to distinguish between type A and type B program

\$411,980

Auditee qualified as low-risk auditee?

☒ yes ☐ no

**CITY OF ONTARIO**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding Number: 08-01**

In prior fiscal years, the City received impact fees from developers to alleviate the impact of future developments. These impact fees were recorded as revenue as the amounts were collected instead of being recorded as deposits and recognized as revenue when the developments occur. As certain future developments did not materialized, the City had to refund some of these fees resulting in a restatement of its beginning fund balance and its beginning net assets of \$6,913,052. We recommend that future impact fees be recorded as deposits when collected and recognized as revenue when the event occurs.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**CITY OF ONTARIO**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**SECTION I - FINANCIAL STATEMENT FINDINGS**

**Finding Number: 07-1**

The City has an investment in joint venture with the Chino Basin Desalter Authority (CDA) to manage groundwater resources in the Chino Basin. This investment is recorded on the City's general ledger using the equity method of accounting. After consulting with the City's Assistant Utilities Director, it was confirmed that the contribution percentage for the City of Ontario in the CDA is 20.33% and the previously used percentage contribution of 7.90% was calculated without the inclusion of the City's share of the \$43 million capital investment in the Chino Basin Desalter No.2 Expansion. As a result, the City has restated its opening fund balance and increased its investment in the CDA at July 1, 2006 by \$9,663,962.

**SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.